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DEPARTMENT FOR EUR/NCE; PLEASE PASS TO NSC FOR ADAM STERLING

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TAGS: [PGOV](#) [PREL](#) [KDEM](#) [ECON](#) [HU](#)
SUBJECT: ANOTHER FINE MESS: LOOKING BACK ON 2007; FORWARD
TO 2008

REF: A) BUDAPEST 1774 B) BUDAPEST 1486 C) BUDAPEST
1756 D) BUDAPEST 1877 E) BUDAPEST 1818 F)
BUDAPEST DAILY DECEMBER 10 G) BUDAPEST 1831
H) BUDAPEST 1794 I) BUDAPEST 1885

Classified By: P/E COUNSELOR ERIC. V. GAUDIOSI; 1.4 (B) AND (D)

11. (C) Summary: Parliament's December recess will bring to a close a fractious fall and a frustrating year. 2007 has seen more motion than forward movement. The embattled Gyurcsany government has been able to take the initiative only episodically, but the opposition has been unable to force them from office despite continued dominance in opinion polls. Political gridlock is likely to continue despite "islands of consensus" on key foreign policy issues, but economic trends are moving (and in the wrong direction. End Summary.

THE SATURATION POINT?

12. (C) For the Prime Minister, 2007 has lived down to expectations. Protests have continued, while the focus has shifted from Gyurcsany's lying to the appropriateness of the social contract, specifically health care. Although all parties have decried the use of violence, demonstrations have been punctuated repeatedly by violent clashes (ref A). The crippling debate over Health Care reform has produced a "compromise" barely acceptable to the coalition, barely comprehensible to the public and barely attractive to potential private sector participants. Recent strikes by teachers and transport workers may presage further demonstrations, and the government will likely soon face a referendum organized by the opposition on key elements of its reform agenda (ref B). The emergence of the extremist Magyar Garda has been an international embarrassment. With a restive party considering alternatives, a contentious coalition partner weighing its options, and bad economic news accumulating at year's end, Gyurcsany may approach what one MSZP MP called "the saturation point" for bad news.

13. (C) But if he is going, it is not quietly. His government has continued to table legislation (albeit increasingly at the risk of overt rifts with MSZP MPs), and there have been more rumors than credible rivals within the party thus far, despite heated rhetoric from traditional Socialists, including Parliamentary Speaker Katalin Szili (ref C). Opposition staffers joke that they're doing "such a good job that no one wants to sit in the hot seat," and conservative Political Scientist Tibor Glant assesses that the MSZP has "a discredited Old Guard but no viable Young Turks."

14. (C) Nonetheless, Gyurcsany still has any number of enemies to keep close. As the Austrian publication Der Standard observes, many in the MSZP are "sawing the legs off the Prime Minister's chair ... without providing any alternatives." The PM has taken a more active role) supported by a more active staff - in rolling out projects funded by EU development assistance, most recently including the renovation of tourist sites and the development of a logistics hub along the Ukrainian border.

15. (C) The PM continues to put on a bold face, reminding his staff that he is "amarathon runner" and commenting recently in a controversial (and subsequently disputed) quote in an interview in the international press that he is "irreplaceable." This continues the clear distinction between his comments for international consumption, including his pledge in the article "not to go half-way on reform," with his repeated comments within Hungary that "the period of austerity is over."

16. (C) After a period of relative isolation, Gyurcsany has also been more visible on the international scene through the fall (though not, we understand, without some of the missteps that have characterized his past trips). Russia policy remains an exercise in triangulation, with Gyurcsany flip-flopping between support for Nabucco, Blue Stream, and South Stream. He is clearly enamored with Putin, but at the same time, fearful of provoking the Russians, and mindful of the commitment Hungary has made to the West (ref E). Even so, the GoH can claim the Strategic Airlift Consortium's decision to base its C-17s at Papa Airbase as an important accomplishment. Similarly, its upcoming deployments of an OMLT and Special Forces to Afghanistan, its acceptance of

Cuban refugees, its assumption of responsibility as the eastern border of the Schengen Zone, and its continued resolve on Kosovo have won strong multi-partisan consensus. (Note: Pal Dunai, outgoing Director of the MFA's Foreign Policy Institute, believes Kosovo in particular is an issue

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where the government's policy is the result of a conscious effort to repair trans-Atlantic ties. End Note.)

THE FREEZING POINT AS FLASH POINT?

17. (C) But his activism has not gone past lip service in response to the growing concerns of international investors regarding transparency, competitiveness and the increasingly weak economic conditions. Moreover, the government's foreign policy record will mean very little to the average Hungarian if the average temperature drops. Although the winter recess generally lowers the volume of political debate, lower temperatures could force the government to choose between raising heating subsidies and risking its deficit reduction plans.

AND THEN THERE'S RUSSIA.

18. (C) Its overwhelming dependence on Russian energy supplies renders Hungary vulnerable to pressure from Moscow, and long-term solutions are still years away. Hungary's confusing positions on competing pipelines is the most obvious sign of this dilemma. At least for the near term, we can expect continued oscillation from Budapest to make their actions and their statements palatable to both Eastern and Western audiences. This attempt, however, has amplified concern among the opposition that Hungary is growing too close to Russia in a misguided effort to be a bridge between East and West. They charge Russia is reviving its political/security/business networks while courting Hungary with veiled threats and promises. In Budapest this month, Russian Prime Minister Zubkov noted "Hungarian-Russian cooperation has been elevated to a new level and could bring a growing number of investments..." Not exactly good news for those who believe Russia's presence in the economy brings business practices better left at home. But during the same set of meetings, both Prime Minister Gyurcsany and Foreign Minister Goncz raised concerns about the Russian elections and the lack of true democratic process proceeding them.

REFORMS

19. (C) With key groups such as students, pensioners, farmers, and public sector employees already protesting the government's reforms, the MSzP appears intent on avoiding any further political fall-out with the public. If faced with a choice between maintaining its deficit reduction targets or being targeted by irate voters, the betting among our contacts is that the government will blink.

DELAYED GRATIFICATION FOR THE OPPOSITION (

110. (C) The opposition has cause for both optimism and frustration. With high poll numbers and a high degree of confidence that the government will invite further attacks with future missteps, FIDESZ enjoys negative control over the political landscape. By combining conservative values and populist economics, they are making inroads among traditional Socialist supporters such as labor unions. Their rhetoric) most recently Party President Orban's dismissal of the Gyurcsany government's reforms as "pigs cleaning the pig sty" and charges of "Gyurcsanist dictatorship" in Parliament) continues to keep the government on the defensive.

111. (C) But the 2010 elections are still a distant prospect and the government is unlikely to commit assisted suicide with early elections. FIDESZ insiders still recall "losing bigger leads," and Glant predicts "the dirtiest campaign in Hungarian history." FIDESZ will likely move to court the uncommitted) and increasingly apathetic) center, which some polls put at 45 percent of the electorate (ref F).

112. (C) A more substantive platform to "prove their readiness to govern" is a key element of FIDESZ's approach. Their "Stronger Hungary" strategy) developed in coordination with the German Christian Democratic Party and British Conservative Party - addresses issues ranging from foreign affairs to job creation (ref G). The strategy promises to restore government services, reduce taxes, and roll back elements of the Gyurcsany government's reforms. This will likely prove an appealing combination, but there are already questions from the business community as to how FIDESZ has done its math. Foreign investors will pay particular attention to any return to rhetoric directed against the "privileges" of international corporations.

113. (C) This issue highlights FIDESZ's fundamental dilemma: its move to a more centrist and substantive approach risks losing the presumptive support of traditional, ideologically-driven supporters on the right of the political

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spectrum (ref H).

AND NO GRATIFICATION FOR THE SMALLER PARTIES

¶14. (C) This leaves little oxygen for the smaller parties (ref H). The SzDSz in particular has become all but a statistical nullity in recent polls, and more philosophical members of the party talk about "having fulfilled our historic mission." Confronting the question of whether to remain in an increasingly dysfunctional coalition or to risk political irrelevance by departing, SzDSz MP Matyas Eorsi laments that he "doesn't know which finger to bite." Even with Party President Janos Koka stepping down as Minister of Economy to focus on re-energizing the party, their electoral prospects remain dim. From our perspective, progress on energy security and transparency will be more difficult with Koka absent from the Ministry of Economy/Energy.

COMMENT: DAYS OF WHINE AND DOZES

¶15. (C) For the second year in a row (or, as many Hungarians would joke, the second millennium in a row), 2007 ends with both disappointment and deadlock. Polling continues to show Hungarians disillusioned with the present and disturbed about the future, leaving them, in the words of one observer, "in a bad mood, poor health, and a terrible fix" (septel). With initial reforms under attack and subsequent steps facing a steep incline, our contacts hold out little hope for dramatic progress next year, especially with elections "only" two years away. As one corporate executive warned, "I don't want to say that we're in a crisis ... but we're definitely at a crossroads."

¶16. (C) Indeed, an economic reckoning may not accommodate the electoral schedule. The government's reliance on revenue enhancement has reduced the deficit but precipitated a decline in growth (ref I). The government is clearly betting on its distribution of EU development funds to provide a much-needed infusion of both capital and confidence. But there are also negative external forces at play, with higher food and energy prices driving up the cost of living and taxes driving some foreign investors - including major players such as General Electric - to reconsider their long-term position in Hungary.

¶17. (C) National Bank President Simor believes the Prime Minister appreciates the gravity of the situation, but believes that "what is necessary economically is not possible politically." Hungarians are maddened but seemingly not motivated by falling behind neighboring states, and contacts in the business community see little energy coming from the political class. The prognosis for next year remains politically uncertain and economically unpredictable. As Dunai concluded, "we Hungarians are losing time. You (diplomats) can afford to laugh (because you can afford to leave."

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